United Nations DP/2001/15

Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund

Distr.: General
20 April 2001

Original: English

Annual session 2001
11-22 June 2001, New York
Item 6 of the provisional agenda
Internal audit and oversight

UNOPS: Internal audit and oversight

Report of the Executive Director

Summary

The internal audit of operations of the United Nations Office for Project Services operations is carried out by the Project Services Audit Section (PSAS), of the UNDP Office of Audit and Performance Review (OAPR). The report presents the findings of this section in relation to 34 audit assignments in 2000 for which reports were issued. A total of 207 recommendations were contained in the reports issued, in the area of finance, personnel, administration (which includes contracts and procurement), programme, management and policy. UNOPS has provided comments on 173 of the 207 recommendations issued, and has agreed and/or provided additional information on 307 of the recommendations it has commented upon.

01-34403 (E) 190501

I. Introduction

1. The oversight framework for UNOPS includes three elements: (a) external audit, performed by the United Nations Board of Auditors; (b) internal audit, performed by the Office of Audit and Performance Review (OAPR) of UNDP, under the terms of an agreement between the two organizations, for which UNOPS reimburses UNDP on a yearly basis for costs incurred; and (c) internal management oversight, which is directly associated with the self-financing principle by which UNOPS continues to operate.

II. Internal audit operations and findings

2. The internal audit of UNOPS operations is carried out by the UNOPS Project Services Audit Section (PSAS) of OAPR. PSAS has seven posts, one of which is encumbered by the Chief of Section, four by auditors and one by an audit assistant.

3. As in previous years, OAPR conducted internal audits in 2000 of both headquarters and field activities. At headquarters, audits were performed of (a) the UNOPS Africa Division (now Africa I); (b) the activities of limited duration (ALD) contracts — recruitment/payments; (c) chapter 3 of the UNOPS Organization Handbook (The Role of the Portfolio Manager); and (d) UNOPS procurement against the administrative budget.

4. There were no major areas of concern relating to the audit of the Africa Division as OAPR considered the overall level of internal control to be satisfactory. OAPR noted that the financial effects resulting from the transfer of part of the Division's project portfolio to the Division for Africa II in Abidjan would have to be reviewed and reflected in the Business Plan targets for the year 2000. There were no significant issues of concern identified in the audit of the ALD contracts. While the same applies to the audit of chapter III of the Handbook, there were certain sections that could be improved, both substantively and editorially, and suggestions to that effect were provided in the audit report. With regard to procurement against the administrative budget, the specific issue of the lack of competitive bidding was considered to compromise internal control and constitute a serious deficiency. Other main issues include the lack of clarity as to the roles and responsibilities of the key parties involved in the procurement process and the lack of job descriptions. In addition, one case of an allegation of violation of human rights in a country in Asia was received in 2000. Following a preliminary review of the case, it was concluded that no further action was warranted and the case was closed.

5. The audits of field activities included two special audits that were carried out as a result of allegations of mismanagement. One concerns project activities in Asia and the other a project activity in Africa. These will be elaborated on in the next four paragraphs.

6. The special audit in Asia was conducted in response to a request by UNOPS management and taking into account the recommendation of the UNDP Resident Representative in the country concerned. Its primary objective was to ascertain the validity of the allegations made by a member of the former project personnel of mismanagement and misuse of authority in one of the project offices. In principle, seven individual allegations were made, four of which were reviewed by the audit team; the remaining three were not reviewed by the team since a proper assessment of those allegations would have required technical and engineering expertise. The outcome of the special audit was that the four allegations reviewed were all substantiated and OAPR considered that the specific area of the sub-project operations reviewed were seriously deficient. The related irregularities constitute mismanagement of the sub-project operations in the regional project office concerned. The disregard for control procedures resulted in an operating condition under which more severe irregularities or wrongdoing, such as fraud, could be perpetrated evidence of which, however, the audit team did not find.

7. Considering the seriousness of the issues, OAPR recommended the establishment of a special team that would assess the technical and financial status of each sub-project. The remaining allegations were addressed by this team. UNOPS acted without delay on the recommendation and established a special team that carried out the assessment. In its detailed field assessment report, the special team confirmed the findings of the audit team concerning mismanagement, abuse of authority and related improprieties; the special team also confirmed that the diverted funds were, in fact, absorbed within the sub-projects involved. In its report, the special team indicated that there were still several items unaccounted for. UNOPS has since

resolved all outstanding matters, including the recovery of a small amount of unaccounted money from the regional manager.

8. The other special audit, in Africa, was also conducted in response to a request by UNOPS management and taking into consideration the recommendation of the Resident Representative in the country concerned. Allegations of financial mismanagement were made relating to the activities of a non-governmental organization (NGO) identified as the implementing agent under the two projects concerned. The allegations had arisen from a review undertaken by the Department for International Development (DFID) of the United Kingdom which also funds the project activities.

9. In the opinion of OAPR, the allegations of financial mismanagement pertaining specifically to the double-charging of donors with regard to certain expenditures was not substantiated. There were no records and supporting documents, based on the detailed review of the financial transactions under the projects concerned, that would indicate that project funds were used to pay for activities that were also paid for from DFID resources. Nevertheless, OAPR considered the financial operations of the projects to be deficient. There were significant weaknesses in the financial operations that affected the timely implementation of the projects. In addition, the weaknesses contributed to the raising of the specific allegation of double-charging of donors. The weaknesses related primarily to the lack of clarity with regard to the following matters: (a) the role of the National Programme Manager; (b) the role of the UNDP office in the implementation of one of the projects; (c) the role of the United Nations Office for Drug Control and Crime Prevention (ODCCP) in the implementation of the other project; and (d) procedures relating to the UNOPS financial authorizations, which contributed to payment delays relating to project inputs. UNOPS has revised the terms of reference and clarified the appropriate reporting line for the National Programme Manager. Institutionally, UNOPS has clarified the respective roles and responsibilities of ODCCP and UNOPS (as executing agency with ultimate accountability for the project activities). Actions have also been taken with the country office to resolve outstanding financial items in the report.

10. Other field audits included activities carried out within the framework of projects and programmes implemented by UNOPS, the main results of which are discussed in the next two paragraphs.

11. The main issues identified in the audit reports include the following: (a) in a large project in Africa, it was observed that while the programme aspects of the project operations, including the work planning, monitoring and reporting aspects were considered satisfactory, the financial aspects were found to be seriously deficient. The various serious issues of a financial nature included incomplete documentation and the lack of audit trail as regards the liquidation of advances; (b) in the report on the audit of four projects in another country in Africa, the level of internal control regarding the procurement activities under the Japanese Procurement Programme was considered satisfactory. In another project, issues such as its formal establishment, duration and financing had not been properly addressed. A statement of income and expenditure was not maintained and the rates charged for services provided were arbitrarily determined with no relation to the actual cost of such support. In two other projects, the control of non-expendable inventory was considered deficient; (c) following an audit of UNOPS involvement in the implementation of a Global Environment Facility Small Grants Programme activity in the Arab States region, the opinion was expressed by OAPR that, overall, the level of internal control in respect of the operations was satisfactory; (d) an audit of a cluster of activities under the umbrella of government-funded bilateral management service in one of the countries in the Latin America and the Caribbean region focused on the adequacy of the procurement procedures and related control. Based on the audit tests made, OAPR considered the overall level of internal control in the procurement operations to be satisfactory; and (e) a follow-up audit on the actions taken by UNOPS following the 1998 Management Audit of the UNOPS Copenhagen Office. The follow-up showed the following status of implementation of the 19 recommendations made in 1998: 10 had been fully implemented; 7 were in progress; and 2 had not been implemented. Of the 19 recommendations, 7 were considered principal recommendations, 3 of which were fully implemented and 4 were in progress.

12. Audits of management and other support services provided by UNDP through UNOPS under Letters of Agreement between the Borrowing Governments and UNDP with respect to activities financed from World

Bank loans were carried out as required by the agreement between the World Bank and UNDP on the management services agreement (MSA) audit modality. According to the agreement, UNDP is to provide the Borrowing Governments with audited financial statements for each MSA with expenditure over $100,000 during the fiscal year under consideration. Audits of implementation in 1999 under 15 MSAs, with total expenditure of $19.7 million, were undertaken principally at headquarters but also included field visits to five of the countries concerned.

13. The audit reports issued in 2000 contained 207 recommendations. Of these, 113 were in the area of finance, 12 in personnel, 27 in administration (which includes contracts and procurement), 12 in programme, 36 in the area of management and 7 in policy. It is to be noted that because of the special nature and purpose of the reports on the audit of government-funded MSAs financed by the World Bank, those 15 audit reports do not contain recommendations. Also, the report on the follow-up on the 1998 Management Audit of the UNOPS Copenhagen Office does not contain recommendations but rather a detailed account of the status of implementation of recommendations as of August 2000. According to an internal UNOPS and OAPR arrangement, the relevant UNOPS organizational units are to provide their comments on the actions taken or contemplated to be taken to implement the recommendations contained in the issued reports. Of the 207 recommendations, UNOPS provided its comments on 173 (84 per cent) but did not provide comments on 34 of the recommendations. Of the recommendations commented on, UNOPS agreed on 107 and/or provided further information (98 per cent of the cases).

III. Internal management oversight activities

14. During his introductory remarks on internal management oversights at the annual session 2000, the Executive Director indicated his intention to establish an internal management oversight unit within UNOPS. The unit would report directly to the Executive Director and assist him in addressing control, quality assurance, standards issues, as well as relations with internal and external oversight bodies.

15. The Executive Director has requested the assistance of the United Nations Office for Internal Oversight Services (OIOS) in the establishment of the unit, including its functions, job descriptions, and staff profiles. It is expected that once the framework for the unit is developed, its rationale and corresponding budget will be submitted to the Executive Board in 2001 for its approval.

IV. Executive Board action

16. The Executive Board may wish to take note of the report of the Executive Director.